This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 001677

SIPDIS

TREASURY FOR SEVERNS/RENENDER
USDOC FOR HUPER
ENERGY FOR DAS BRODMAN AND CGAY
STATE PASS TO USTR
STATE PASS TO OPIC
STATE PASS TO US EXIM BANK

E.O. 12958: DECL: 09/09/2015
TAGS: EPET EINV ETRD NI OIL
SUBJECT: NIGERIA: EXXON MOBIL CHIEF ON REFINING DEMANDS, NEW MOU

REF: A: LAGOS 1341 B: LAGOS 1369

Classified By: AMBASSADOR JOHN CAMBELL FOR REASONS 1.4 A,B, and D

¶1. (C) Exxon Mobil Nigeria Chief John Chaplin told the Ambassador on September 6 that oil majors were in the midst of renegotiating their MOU with the Nigerian government (GON), which would allow them to keep a part of the revenue over $30 per barrel, all of which now goes to the GON. They also are negotiating to reduce severe tax penalties on increased production costs. Chaplin planned to inform the GON that Exxon Mobil was selling its retail operations in 14 of 26 African countries, though not Nigeria, to Total. While Chaplin said oil producers were very unhappy with proposed government regulations to force large producers to refine some crude in-country and invest in refining, he did not request the Embassy to engage the GON on the issue. When pressed, he said the Embassy should continue to make the case for downstream deregulation and a good investment climate. Exxon Mobil's CEO would be visiting Nigeria soon and hoped to meet President Obasanjo, while the oil producers planned to discuss refining and other issues at a high level at the upcoming World Petroleum Congress in Johannesburg.

¶2. (C) It was clear that the oil majors' priority were the MOU and tax negotiations, and at this point they did not want to rock the boat by calling for USG pressure on the refining issue. Instead they will first try to address it themselves in upcoming high-level meetings. Though for the moment they have backed off a request for the Ambassador to raise the refining proposals directly, if the GOU were to issue the proposed regulations, they might be knocking on our door demanding immediate high-level action, both here and in Washington. We will want to be prepared. End summary.

Getting a Better Deal

¶3. (C) Exxon Mobil, Nigeria chief John Chaplin called on Ambassador on September 6 to discuss issues facing the oil industry in Nigeria. He told the Ambassador the majors' current focus was on an inter-ministerial group that was looking at renegotiating the Memorandum of Understanding with the oil producers to split the revenue above $30 per barrel. Currently all revenue above that level goes to the Government of Nigeria. The oil producers also are having meaningful discussions about tax penalties on operating costs and capital costs above a set threshold. To keep costs down and profits high, the GON imposes a 50% tax penalty on operating costs above $2.40 per barrel, and a similar tax on capital costs that exceed a certain threshold. Costs are rising, in some cases imposed by the government, and many companies exceed the threshold. In total, with various new taxes and levies, the Government of Nigeria gets 95% of the profit from oil production. Nonetheless, Chaplin said production, including new production, is still attractive in Nigeria as long as oil prices exceed about $25 per barrel. Still, the terms must be right, and Chaplin pointed out that majors did not compete for new blocks in the recent bid round.

Pulling Out of Retail

¶5. (C) Chaplin said he was on his way to deliver the news to the Nigerian National Petroleum Corp. (NNPC) that Exxon Mobil was selling off its retail business in 14 of the 26 African markets where they had a presence. The entire stakeholding was being sold to the French firm Total. Exxon Mobil would keep its retail operations in Nigeria, but the subtle message would be that they would pull out of countries where the investment did not pay off.

Oh Yes, and That Refining Issue

¶6. (C) A good forty minutes into the conversation, Chaplin got around to what we had expected to be the main topic of the meeting--GON proposals to require oil producers to refine

some crude in country. Chaplin said the GON had long been pressuring the majors to engage in refining, preferably by buying refineries being privatized, or by building new refineries. Given the poor state of refineries and their huge legacy of environmental, workforce, and community issues, western firms were absolutely unwilling to touch them. Now the GON wanted them put crude in and take off product, which NNPC Managing Director Kupolokon believed would force majors to invest in the refineries, since they were nearly moribund. The industry saw this as creeping expropriation, both by commandeering their crude, and by trying to force investment in a money-losing sector. The industry was talking to the GON about the issue, but did not believe the discussion was going anywhere. The oil producers believe Kupolokon was responding to pressure from the President to get the majors involved in refining. He was threatening legal action by the National Assembly if the majors didn,t comply.

¶7. (C) The Ambassador asked how the majors intended to address the issue. Chaplin said they were trying to maintain a common front, and to assess the costs to them if the regulations were issued, and what their bottom line was in terms of what they could accept. The industry was lobbying the government on various issues, but Chaplin acknowledged that there were currently many separate discussions on different issues, which were not integrated. Together all of the potential problems could add up to significant new costs. The refining issue, in particular would hurt the investment climate. The oil companies had not engaged the President recently, in the past he tended to pound tables and demand the oil company step up to the table. Chaplin said Exxon Mobil's new CEO would be coming to Nigeria soon and hoped to meet with President Obasanjo. Further high-level meetings would take place involving all the oil majors at the upcoming World Petroleum Congress in Johannesburg. When the Ambassador asked what Chaplin wanted the Embassy to do, he asked that the U.S. continue doing what it already did -- encourage deregulation and improving the investment climate.

¶8. (C) Comment: Earlier Chaplin had suggested to ConGen Lagos that the Ambassador meet with Deputy Energy Minister Dakoru on behalf of the industry to raise concerns about the refining issue (ref A). We expected to Chaplin to reiterate this request and possibly upgrade its urgency. Instead, he appeared relaxed and hopeful that the MOU and tax discussions would bear fruit. This was clearly the priority issue for the oil majors. It was further clear that the oil companies did not want to annoy the GON by getting the USG to raise the refining issue while the MOU negotiations were ongoing, and they hoped that upcoming high-level industry meetings with the GON might defuse the refinery issue.

¶9. (C) It is not unusual for the U.S. oil companies to blow hot and cold. They put a great deal of energy into nurturing their relationship with the GON, and for the most part prefer to try to address industry specific issues themselves. They may turn to the Mission, only to back away from requests on further consideration. If their efforts fail to achieve a resolution or problems become more acute, they can quickly return demanding action. At this point the government could issue new regulations, possibly within a few weeks, and then to begin imposing fines for non-compliance. In this case major U.S. oil companies could demand immediate action here and in Washington. The Mission will continue to follow the issue closely and Mission personnel will meet with the NPPC and the Ministry for Energy to learn the GON's positions and express concerns about the consequences of this proposal. We will continue to keep Washington agencies informed so that we are prepared to take appropriate steps if requested by industry.
CAMPBELL